S&P Global
Ratings

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Summary:
New Orleans; General Obligation

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Credit Profile		
US$183.0 mil pub imp bnds ser 2024A due 12/01/2053		
Long Term Rating	A+/Stable	New
US$17.0 mil taxable pub imp bnds ser 2024B due 12/01/2024		
Long Term Rating	A+/Stable	New
New Orleans GO		
Long Term Rating	A+/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'A+' long-term rating to the City of New Orleans' $183 million 2024A public improvement bonds and its $17 million 2024B taxable improvement bonds.
- At the same time, we affirmed our 'A+' rating on the city's existing general obligation and limited-tax debt.
- The outlook is stable.

Security

Revenues from an unlimited ad valorem tax secure the bonds. The 2024A bonds is the final installment of $500 million authorized by voters in 2019. The city plans to use the proceeds for capital projects through the city and for affordable housing purposes.

The limited-tax bonds outstanding are special and limited obligations of the city and are secured by and payable solely from the city's portion of the revenues of a special ad valorem tax.

Credit overview

A major economic and significant tourism destination for the State of Louisiana and the broader region, New Orleans has recovered from significant economic slowdowns brought on by the COVID-19 pandemic. Buoyed by federal stimulus funds, the city has amassed large fund balances more than $300 million but expects to gradually spend these funds on capital projects, leaving a 15% reserve. Limiting the rating is a history of fluctuating reserves, very large long-term pension liabilities just over $1 billion, particularly with the city's firefighter's pension plan, and the city's unique exposure to coastal flooding and hurricanes.

The rating reflects our view of New Orleans':

- Very strong, robust, and increasingly diversified economy, buoyed by numerous special events and festivals a year, including Super Bowl 59 in February 2025;
- Strong budgetary performance, which we expect will weaken in the next couple of years as the city executes its plan to spend reserves built up partially from American Rescue Plan Act (ARPA) funds;
- Very strong budgetary flexibility, with reserves more than 35% of expenditures, or $319 million;

- Very weak debt burden, with significant long-term liabilities beyond its $906 million in debt outstanding, and high pension expenditures as a percent of total governmental; and
- Standard Financial Management Assessment (FMA), with a strong institutional framework score for Louisiana cities.

Environmental, social, and governance

We believe that the city's exposure to climate hazards represent a long-term--and more outsized--risk to credit quality. According to our Sustainable1 data, the city has high exposure to physical risks from coastal flooding and hurricanes, with coastal flooding a particular outlier when compared with the U. S. and Louisiana. As a result of soil issues and the global incidence of sea-level rise, the U.S. Army Corp of Engineers stated that engineering analysis indicates that the Greater New Orleans Hurricane and Storm Damage Risk Reduction System might not provide the intended mitigation by as early as 2023. Since then, the Army Corps of Engineers has begun remediation on certain parts of the system, awarding contracts in late 2023 as a part of an estimated $3.7 billion effort.

New Orleans' unique location and geography, with extensive low-lying areas, exposes it to storm-damage risks, as evidenced by the city's history with named hurricanes and tropical storms. The most recent storm, Hurricane Ida, travelled over New Orleans in 2021, but the city did not suffer any long-lasting or significant damage. To mitigate these concerns, the city focused on maintaining its network of drainage pumps, working with insurance providers to improve coverage levels, improving buildings to require certifications such as LEED, and designated $100 million in reserves for contingencies.

In our view, the city's social and governance factors are credit neutral.

Outlook

The stable outlook reflects our view that the city's strong economy will support continued revenue growth, and that officials do not intend to draw down reserves below the $133 million set aside in restricted fund balance.

Downside scenario

We could take a negative rating action if the city's planned use of reserves is greater than forecast and creates pressure to current operations or responding to unplanned events.

Upside scenario

We could take a positive rating action if the city returns to stable operations and fund balances are maintained after the current planned drawdown, and the city makes material progress addressing its long-term liabilities.

Credit Opinion

Regional economic hub, with several significant events and festivals

New Orleans, known primarily as a tourist destination and for Mardi Gras, Jazz Fest, Essence Fest, and several other festivals, has seen a gradual diversification in recent years, with more technology and financial service firms coming to the city. It has very strong-to-strong economic metrics, but the city has stagnant population trends, with our projections indicating a 3.9 percent population decline in the next 10 years. Assessed valuation continues to grow in the city, with values improving over 15% in 2023, with this trend expected to continue, although perhaps not at double-digit rates. Given the growth in sales tax revenues and increasing property tax values, we do not consider this a credit weakness.

Aside from the city's famous festivals and upcoming major events such as Super Bowl 59 in February 2025, the city has other economic developments ongoing, with officials citing aerospace activity at the local NASA office, film productions, and health care developments through Xavier University. Other developments include the River District/Market Street power plant, and the future redevelopment of Six Flags New Orleans, which was closed after Hurricane Katrina.

Weak budgetary performance

In the past couple of years, New Orleans has built up fund balances, mostly by substituting public-safety expenditures with federal stimulus funds. This resulted in significant surplus results in 2022 and 2021, which allowed the city to recover reserves that were depleted earlier due to the December 2019 cyber attack and the loss of tourism-related revenues from the COVID-19 pandemic. Officials do not plan to maintain the current level of reserves, which is over $300 million, and expect to spend down reserves over the next three years, bringing fund balances close to $133 million, which is the planned set-aside amount for contingencies. Management expects 2026 will be the first year when drawdowns are no longer reported, and the city enters a steady state of operations. We note that although New Orleans faces unique risks compared with other major metropolitan areas, the city will need to remain responsive to potential environmental risks, or tourism-related economic shocks. However, in the near term, given the city's large reserve position and recent trend of positive revenues, we believe New Orleans will maintain enough flexibility to manage through any potential challenges.

Standard FMA

Officials use historical trends, economic reports from local universities, and routine contact with the assessor's office when developing budgetary revenue and expenditures. They also use an informal five-year operational financial plan that is reviewed and updated annually. Strengths include strong oversight in terms of monitoring progress against the budget during the year through monthly review of budget-to-actual results, a formal five-year capital plan that is reviewed annually, and strong investment-management policies. Although officials have a formal debt policy to govern the issuance of GO debt, the city lacks a formal policy that governs other security types beyond the constraints of current state laws. The city also has established restricted fund balances of $133, meant to serve as a contingency. We also note that since the December 2019 cyber attack, the city has taken measures to strength protections in areas such as training, system access, and infrastructure improvements.

Very weak debt burden

Currently, the city has $906 million in debt outstanding. At this time, the city does not have any future debt plans.

In our opinion, a significant credit weakness is New Orleans' large pension and other postemployment benefits (OPEB) liability, given the lack of a firm plan that we think will sufficiently address it by managing the low funded ratios and large pension liabilities.

The city sponsors and participates in four separate pension systems and provides OPEB benefits as follows:

- Fire Fighter's Pension and Relief Fund (Old Fire System), funded at 11.8% with a liability of $79.4 million;
- Fire Fighter's Pension and Relief Fund (New System FPRF) funded at 11.5% with a liability of $411.6 million;
- Municipal Police Employment Retirement System (MPERS) funded at 71.3% with liability of $253.4 million;
- New Orleans Municipal Employees Retirement System (NOMERS) funded at 55.8% with a liability of $303.2 million; and
- An OPEB plan, which is unfunded with a net liability of $148.6 million.

Management has made changes to the actuarial assumptions for NOMERS, reducing the discount rate to 7.25%, making changes to the payroll growth assumptions, and switching to a closed amortization. We view these changes as beneficial, and while contributions might increase depending on investment returns, the city now expects to make progress towards funding. Officials report that the Old Fire System plan is handled on a pay-as-you-go basis, with benefits payments made as needed. The city passed a 2.5-mill property tax increase to help fund the firefighters' plan in 2016, and while funded ratios continued to decline in previous years, the liability has declined in the past two years, but the liability in the new firefighter's system has increased.

We do not believe that these liabilities will overwhelm the city's finances in the near term, but, in the medium term, we believe that the pension obligations will reduce budgetary flexibility and performance. In particular, we believe that the firefighters' plan is a significant credit risk, and that the city will deal with financial pressures from these city-managed pension plans for the foreseeable future. We believe that management will soon need to increase contributions to its city-managed plans, which will reduce budget options for other operations.

New Orleans--Key credit metrics

	Most recent	Historical information		
		2023	2022	2021
Strong economy				
Projected per capita EBI % of U.S.	94.4			
Market value per capita ($)	133,636			
Population		380,966	392,186	392,069
County unemployment rate(%)			4.5	
Market value ($000)	50,910,736	43,719,682	38,681,745	
Ten largest taxpayers % of taxable value	7.4			
Weak budgetary performance				
Operating fund result % of expenditures		-8.5	26.5	16.4
Total governmental fund result % of expenditures		16.2	19.4	196.5
Strong budgetary flexibility				
Available reserves % of operating expenditures		35.3	54.4	26.0
Total available reserves ($000)		319,470	344,111	151,654
Very strong liquidity				
Total government cash % of governmental fund expenditures		71.3	97.5	263.5
Total government cash % of governmental fund debt service		620.1	474.7	895.2

New Orleans--Key credit metrics (cont.)				
	Most recent	Historical information		
		2023	2022	2021
Adequate management				
Financial Management Assessment	Standard			
Very weak debt and long-term liabilities				
Debt service % of governmental fund expenditures		11.5	20.5	29.4
Net direct debt % of governmental fund revenue	63.0			
Overall net debt % of market value	1.8			
Direct debt 10-year amortization (%)	47.9			
Required pension contribution % of governmental fund expenditures		10.8		
OPEB actual contribution % of governmental fund expenditures		0.0		
Very strong institutional framework				

Data points and ratios may reflect analytical adjustments. EBI--Effective buying income. OPEB--Other postemployment benefits.

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022
- 2023 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of July 26, 2024)		
New Orleans GO		
Long Term Rating	A+/Stable	Affirmed
New Orleans GO		
Long Term Rating	A+/Stable	Affirmed
New Orleans GO		
Long Term Rating	A+/Stable	Affirmed
New Orleans GO rfdg bnds ser 2022 due 12/01/2042		
Long Term Rating	A+/Stable	Affirmed
New Orleans GO (AGM)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
New Orleans GO (AGM)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
New Orleans GO (AGM)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
New Orleans GO (BAM)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
New Orleans GO (BAM) (SECMKT)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed

Ratings Detail (As Of July 26, 2024) (cont.)		
New Orleans GO (BAM) (SECMKT)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
New Orleans GO (BAM) (SECMKT)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
New Orleans GO (BAM) (SECMKT)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
New Orleans GO (BAM) (SECMKT)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.